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Brown, Harry Gunnison

A talk for business men, workingmen and farmers...

New York

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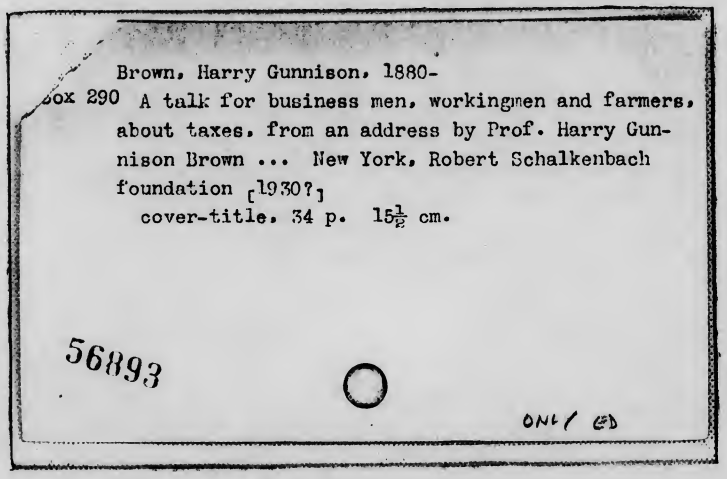
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A TALK

For Business Men, Workingmen and Farmers

ABOUT TAXES

From an Address by

Prof. Harry Gunnison Brown

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Z
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Published by

The Robert Schalkenbach Foundation

11 Park Place, New York

FOREWORD

PROF. BROWN is an acknowledged authority among American economic teachers upon questions relative to taxes and public revenue. He is the author of many books, most noted of which, perhaps, are "The Taxation of Unearned Incomes" and "Economic Science and the Common Welfare." The argument which follows, prepared at the request of the American Association for Scientific Taxation, sustains the growing opinion among professors of political economy that public revenues should be raised through gradual and progressive approaches to the system of land value taxation proposed by Henry George; and that there should be, as Professor Irving Fisher of Yale declares, a corresponding and gradual reduction of taxes upon business and the products of labor.

Relieving Business and Agriculture Through Scientific Taxation

(1)

Some Criticisms Stated

Every important reform has to meet, before it can be put into effect, objections based on misunderstanding of the nature and real effects of the reform. The proposal to raise the greater part of public revenues by a tax on bare-land values is no exception. That there is serious lack of comprehension on the subject of land-value taxation should be obvious from the mutually destructive nature of the arguments advanced against it. Among these arguments I shall give particular attention to the following four:

1—That the proposal to tax chiefly land values is communistic;

2—That the reform is socialistic;

3—That it is unfair to the poor because it does not tax the rich in proportion to their "ability";

4—That it infringes on the long recognized "vested rights" of landowners.

INTENTIONAL SECOND EXPOSURE

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Oct. 13, 1930 DA Hee

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4—That it infringes on the long recognized "vested rights" of landowners.

Let us consider these objections in the order stated.

(2)

As to Communism in Taxation

The first objection, viz., that increased land-value taxation is communistic appears, on analysis, a most inconsistent objection to be raised by conservative critics who support the existing tax system. For the existing system of taxation is strongly tinctured with communistic principles, whereas the taxation of community-produced land values rather than of individually-produced wealth is far removed from communism. The theory on which existing tax systems are frequently defended is the so-called "ability theory" of taxation. The idea that taxes should be levied according to ability is one of those ideas which we come to accept through hearing it constantly repeated. As a matter of fact, the ability theory of taxation is in large degree a communistic theory, while, nevertheless, taxation based on that theory is not the best kind of taxation for the interests of the common man.

The essence of communism lies in the equal sharing in the products of industry without much regard to contribution or efficiency. The larger output of goods produced by the comparatively efficient is, in part, taken from them for the support of the inefficient.

When conservatively-minded persons criticize communistic schemes on any other basis than their own immediate selfish pecuniary interests, their criticism is to the effect that such schemes fail to reward efficiency and thrift, divorce superior service from superior remuneration, and are likely, therefore, not to work well. Yet these same conservatively-minded persons will defend the existing system of taxation—which certainly has large elements of communism—against a system which would penalize much less or not at all any future labor or thrift of any person. Our Federal income tax is certainly, in some degree, communistic. Not only does it take more from those whose hard work and thrift give them larger incomes than the inefficient, wasteful and lazy, but it taxes the former at a much higher rate. Even our state and local property taxes put a greater burden—though not a greater proportionate burden—on those whose efficient work and whose habits of thrift enable them to accumulate capital. If a man saves and improves his property, he must pay more taxes. If he is lazy and thriftless his taxes remain low. If,

constructing a great factory, he increases the efficiency of hundreds or thousands of workmen and so adds to the sum of commodities which all may enjoy, he is punished by increased taxes. But if, instead, he keeps a piece of land vacant and unused until the activites of those around him and the growth and development of the community have given it high value; if he then makes money out of what these others have done, requiring the person who would use the land to pay him a high price for advantages of situation for which not his activities but the activities of others are responsible: we keep his taxes relatively low. And this we do, notwithstanding the fact that such holding of land out of use amounts to a public nuisance. For, because of it, gas pipes, electric light and telephone wires must be extended farther, street railway lines must run longer distances, retail store delivery service must cover a larger area, and pedestrians must walk longer distances to and from their work; yet the holding of land out of use for speculative gains tends to make land dearer rather than cheaper, so that the individual householder may have somewhat less garden space than otherwise.

On the other hand, a tax on bare-

land values which are produced by the growth and activities of the community is clearly not communistic as communism has been above defined. Such a tax would take from the individual only that part of his income for which the community is peculiarly responsible. If his income is larger because the growth of the community about him enables him to secure a high rent from a favorably situated piece of land, his tax would be higher. But if his income is larger because he works more efficiently than others or because by his thrift he is enabled to build stores, factories or houses, or to cover bare acres with fruit trees, his bare-land-value tax would be no greater. The rewards of his superior efficiency and of his superior thrift would not be taken from him. His efficiency and his thrift would not be penalized in order that the inefficient, lazy and unthrifty should share, without deserving, in what he has produced.

Land-value taxation communistic! Truly, the charge is laughable! Let those conservatives who are sincerely opposed to communism because they do not wish efficiency and thrift penalized —and are not merely opposed to change as such—lend their support to increased land-value taxation as fundamentally

more consistent than our present tax system with the principles they advocate.

(3)

The Present System More Closely Allied to Socialism

The second objection to which attention will be directed is that land-value taxation is socialistic. This objection is no less untenable than the first. Whatever may be said regarding the merits or demerits of socialism, it is certainly not true that bare-land-value taxation is more in keeping with the principles of socialism than is the taxation of all income-bearing property. The truth is that our existing tax systems and the conservatively-minded people who support them may be classed with orthodox socialism and with orthodox socialists for their failure to make a most important distinction between interest and rent and, therefore, between capital and land, which the orthodox socialists also fail to make.

In order that both the position of socialists, and our justification for taking a different position, may be entirely clear, it is important that we distinguish intelligently and carefully between incomes that are earned and incomes that are not earned. Let us devote a little

consideration to this distinction. What is an unearned income and when is an income earned? I should class the income of the burglar as unearned. I should class the income of the highway robber as unearned. Although such persons exercise some industry and frequently a great deal of foresight, their industry and foresight do the rest of us no good but are used to get something for nothing. Similarly, I should class the excess prices received for his goods by a monopolist as unearned, because they are gained at the expense of the consumers. Unearned incomes like these, indeed, I would not desire to have taxed. It is better that they should not be received in the first place. Burglary and highway robbery should be stamped out. Monopolistic extortion should be effectively prohibited. But these serve to illustrate the idea of an unearned income; and there are, as we shall see, other unearned incomes which can advantageously be taxed.

On the other hand, the income which is secured in exchange for a real service rendered is earned. Such an income is that of a farmer whose efficient labor adds to the world's supply of corn and wheat; or the income of the merchant whose intelligence in the selection of his goods makes purchasers de-

sire to frequent and buy in his store; or the income of the manufacturer whose net returns are large because he uses material wisely, effectively co-ordinates his labor force, and installs the best and most up-to-date machinery.

There is a widespread notion that the interest on capital is not earned as truly as are the wages of labor. The socialists regard all income from property as unearned and consider only the income from work as legitimate. The socialist is not necessarily a communist. He may not desire to have all incomes equal. He may not wish that the enjoyments of the efficient worker shall be decreased in order that the inefficient worker shall have more. His complaint is not that incomes from work are unequal—although he doubtless sometimes regards them as more unequal than they should be—but that many individuals receive income from *property*. The socialist would have the public own and operate industrial plants in order that individuals should not get income from investments but only from their labor. Yet the notion that interest on capital, as such, is unearned has not the least basis in logic. It is an utterly wrong notion. Capital can be brought into existence only by saving. To have capital we must produce more than we

consume, i. e., save. By not consuming all of your income but instead investing part of it, you really turn the use of the invested part over to laborers, et al., whose time is thus set free for the construction of capital—the tools and equipment of industry. If nobody saved, all the time of all laborers would have to be spent producing goods for immediate consumption; no time could be spared for producing equipment.

And capital is useful. Though to save it involves temporary sacrifice, yet much more wealth can be produced with capital than without it. So the person who works and, saving part of his proceeds, thereby makes possible the construction of capital, adds thereafter more to the annual output of industry than the person who works but does not save. To give him a larger income —in the form of interest on capital—is not to rob anyone else. It is merely to give him wealth which, except for him, would never have been brought into existence.

But the case is not at all the same with regard to land. Land is not humanly produced. The situation advantages of land are not brought into existence by the individual owner. The rental yield which the owner derives from land or sites is not therefore, in

general, the product of any owner's work and is not the product of any owner's saving. Land is valuable because of natural advantages of location and because of community growth and development. The latter influence is recognized wherever the phrase "unearned increment" is current. We all know that the annual rent which an owner could charge for a piece of bare land in Chicago's loop district, to a prospective builder desiring a long lease, is not a consequence of the owner's saving the land or making the land, but is the consequence of the growth of Chicago and surrounding territory. An eighth of an acre at the corner of State and Madison streets in Chicago has been expertly appraised as worth, bare-land value, about two and a half million dollars or at the rate of twenty million per acre. Wherein is such an eighth of an acre better than an eighth of an acre of farm land worth twelve or fifteen or twenty dollars? Is the additional value of the land in Chicago due to the owner's activities? Everyone who is honest with himself knows it is not. It is the result of the growth and development of the geographically tributary country, and of Chicago as a port and a market center.

The same is true of the several bil-

lions of dollars of land value in New York City. New York City is situated on a great natural harbor. If there were none to use it except a few pioneer farmers on Manhattan Island trading some of their surplus produce for the textiles and other goods of Europe, landing space for a very few boats or perhaps for a single one would be all that would be needed. But as the rich interior of the North American continent was settled, with its mines of iron ore, copper and coal, its prairie and river-bottom wheat and corn-lands, and its other resources, more and more goods were produced to be poured through the port of New York into foreign countries and more and more foreign goods were wanted in exchange which could most advantageously pass through the same port. Today there is needed in New York City a large population to meet the requirements of this great *hinterland* (as the Germans would say) or tributary country.

If all the present working population of New York were whisked away overnight, the land of New York would still have great value because of the need for millions of men and women on it to serve the commerce of the back country. A new population would move in and take up the important work for

the rest of us which can be done nowhere else so well; and those who own that part of the earth's surface would be in a position to make this new population pay handsomely for the privilege of working for us and of living where we need to have them live in order that this work may be effectively done.

The demand of the tributary country for this service makes a demand for the use of the land by the people who must live and work there to render the service. Incidentally, too, it makes a tremendous demand—and correspondingly high rents and values—for the use of especially well-situated lots for the location of department stores, lunch rooms, banks, lawyer's offices, etc., necessary to supply near-at-hand the requirements of those who live there to serve the non-sea-coast sections.

Surely, the rent of land is in a very peculiar sense socially produced rather than individually earned, and ought to be sharply distinguished in thought from interest on capital produced by individuals.

The distinction between interest on capital—an earned income—and rent on land—an unearned income—is slurred over by socialists. They, as a rule, class both together. They would abolish

both as private incomes. But our most conservative citizens, though many of them would be shocked and perhaps angered to be classed with the socialists, seem to share in some degree the socialist notion. They, also, see no distinction between interest on capital brought into existence by work and thrift, and rent from sites made valuable by community development. They also see no essential difference between land and capital. Although they would not abolish private income from either, they insist on taxing the income from both—and at equal rates. Both socialists and conservatives are, in regard to their inability to distinguish between land and capital, like the farmer's new hired man who, sent to drive in the sheep, spent several hours at the task. Pointing to a little animal in the pen with the sheep, the farmer asked: "What's that Jackrabbit doing in here?" "Oh, is that a Jackrabbit?" said the new man. "Why, that's the little fellow that gave me all the trouble."

If we were not blinded by a prejudice which will not let us see facts, we could not help appreciating the logic of taxing land values more and other values less. Why should we penalize saving? Why should we levy a higher

tax on one who improves his land than on one who holds his land idle? Why should we levy as high a tax on income from labor and capital as on an income produced by the presence of the community?

But those of us who criticize socialists and the supporters of existing taxes for not grasping the distinction between interest and rent ought certainly ourselves to be careful to apply the distinction consistently. Let us remember, then, that fertility elements put into the soil—and, equally, fertility elements maintained through constant renewal—by a farmer, are in the economic sense, capital rather than land. In the city we construct capital *on* the land. In the country we often put it, largely, *into* the land. Let us reckon as bare-land value, therefore, in the case of agriculture, only that value which the land would have if in large degree exhausted, and consider any greater value which it may have as a result of the care and attention applied to putting it into *or keeping it in* fertile condition, as compared with its "run down" value, to be capital as truly as the buildings, machinery and planted trees upon it. If we really wish, as distinct from communists, socialists and *those conservatives who partially share*

their point of view, not to penalize efficiency, not to penalize thrift, and not to tax as unearned income values which are produced by individuals rather than by nature and society; then we shall wish to arrange that the farmer who builds up *or, even, who merely maintains,* the fertility of his land, *shall not have to pay any higher tax than if he kept it in run-down condition* and with no buildings, orchards, or other improvements on it.

(4)

Land-Value Taxation Nevertheless Better for the Common Man

We come now to a third objection frequently raised against the proposal to secure the major part of public revenues from a tax on land values, viz., that it is unfair to the poor because it does not sufficiently tax the rich. In this view the ideal tax system is one which will "soak the rich." Communistic this view may indeed be, but it has very large popular support and represents opposition to the land-value-taxation program, of an entirely different nature from that of those conservatives whose objections we have just been criticizing. Nevertheless, this objection also is based on a lack of real comprehension of the principles of the land-value tax. We shall see that, on the

contrary, the taxation of land values is more advantageous to the poor man than taxation according to "ability," even than the progressive taxation which is nowadays so popular.

In order to make this perfectly clear, it is necessary that we distinguish between the conditions determining the value of capital and those determining the value of land. The difference lies in the fact that the value of capital depends upon its cost of production—or of duplication—while the value of land depends solely upon its expected future income. This distinction is, from the point of view of public policy, of the utmost importance. Capital includes all tools of production brought into existence by the effort and thrift of human beings. It includes planted trees and the fertility put into land by the owner's effort and investment or restored and maintained by the owner's care and thrift. The bare land is a gift of nature. Since capital has to be produced, its value depends on its cost of production, whereas land has no cost of production and its value is dependent solely on its expected future income. Of course the value of capital, also, is related to the prospect of income. An unseaworthy ship does not have high value just because its cost of construc-

tion was high, and a railroad built through a desert may have little value despite a high cost of building. Yet in the long run and on the average there is certainly a close relation between the value of capital and its cost. Competition tends to bring about a price for any capital which just about covers the cost of producing it, including in cost the ordinary "profit" to the producer. Indeed, no one will go on year after year producing capital instruments to sell for less than their cost; and no one, unless he has a monopoly, can go on year after year charging much more.

But the value of land has no relation to any cost of production, since the land was not humanly produced and is not reproducible. The would-be buyer of land asks only how much net return he is likely to be able to make from it. Such an expected net yield is then capitalized at the prevailing rate of interest. However much the community may grow, capital cannot rise in value except as the cost of producing it increases; while land rises in value as and because the community grows and develops, and in proportion as roads, subways, railroads, schools, etc., are built around, through and in it. A business block in the center of a great city is valuable (bare-land value), not because

of the activities of those who own that particular piece of land, but chiefly because of the way in which others settle about it. The development of the environing areas enables the owner of that block to enjoy larger rents, and the possibility of enjoying these rents gives the privilege of ownership value and makes the land sell for a high price. Individuals create the value of their capital by saving and constructing the capital. Nature and society create the value of land.

Since the value of land has no relation to any cost of production but depends solely on its expected future rent, a tax on this value which reduces the net rent of land will correspondingly reduce the salable value of the land. Here is a fundamental difference, frequently overlooked or not comprehended, between the effect of taxing capital and the effect of taxing land value. The more land is taxed the less is its salable value, while the less it is taxed the greater is its value. But this rule does not apply to capital.

Since the salable value of land is lower in proportion as land values are more heavily taxed, therefore the taxation of land values, above all other economic reforms, tends to diminish tenancy and to give all who are hard

working and thrifty the opportunity of owning land. If incomes, commodities and capital saved are less taxed, it is easier for a poor man to accumulate a competence. And if land is taxed more, then it is cheaper and can be bought at a lower price. The greater cheapness of the land fully offsets the higher tax on it and there is to be reckoned also, the reduction or removal of other taxes. Thus there is a clear gain to any person intending to buy land for a home or other use, but no gain to the mere land speculator.

Many persons, and among them some professional economists, have never succeeded in getting a thorough comprehension of this point. Thus, the writer has heard the objection advanced that the greater cheapness of land is no advantage to the poor man who is trying to save enough from his earnings to buy a piece of land; for, it is said, the higher taxes on the land after it is acquired, offset the lower purchase price. What such objectors do not see is that even if the lower price of land does no more than balance the higher tax on it,* the reduction or removal of other

*In THE TAXATION OF UNEARNED INCOMES, second (revised) edition, Columbia, Mo. (Lucas Bros.), 1925, pp. 101 and 154-156, the author has given reasons for thinking that it may more than offset the higher tax.

taxes is all clear gain. It is easier to save in proportion as earnings and commodities are relieved of taxation. It is easier to buy land, because its selling price is lower, if the land is taxed. And although the land, after its purchase, continues to be taxed, not only can this tax be fully paid out of the annual interest on the saving in the purchase price, but also there is to be reckoned the saving in taxes on buildings and other improvements and in whatever other taxes are thus rendered unnecessary. It would seem, then, that those economists who can see no advantage to the common man in ease of becoming an owner of property, from the taxation of land values rather than of other things, are lacking in the ability to make a very simple mathematical calculation. And if to tax land values rather than other values would aid the property-less person to acquire a competence, it would obviously make easier the economic rehabilitation of those whom fortune has dealt heavy blows or of their children who must begin, at the bottom, the struggle to restore their broken family fortunes. Thus, this reform may be likened to the abolition of debt slavery and of imprisonment for debt and to establishment of bankruptcy laws. Men could

not sink so hopelessly low in the economic scale as is now possible.

The taxation of land values rather than incomes, commodities and capital is not communistic, as a part of our present tax system is. Land-value taxation does not penalize the efficient. It provides no royal road to wealth for the lazy and the thriftless. It does not attempt to reduce all to a common level. It is essentially individualistic. It leaves to the individual all that he can acquire by labor and saving. It takes for society a value which is in a peculiar sense a social product. But no system of taxing commodities, incomes, and property in general can possibly be so good for the common man, do so much to encourage ownership as against tenancy, make the opportunities of getting a start in life so hopeful, as a system of relying chiefly on the rental value of land for the provision of public revenues.

To the popular mind and even to the mind of the superficial student of economics, the idea of levying progressive taxes which shall be high on the rich, as such, without distinction as to the source of income, seems to have a considerable appeal. To the masses this means, often, "soaking" the rich and, therefore, it is presumed, relieving the

poor. Certain economists who appear never to have really grasped the distinction between land and capital have elaborated this idea into the "ability theory" of taxation. And these economists have apparently the endorsement of certain "liberal" newspapers and magazines.

To persons whose sympathies are with the common people rather than with the well-to-do, an attack upon the "ability theory" as having elements of communism, may not seem very significant. Though it be shown conclusively that the application of such a theory of taxation penalizes industry and thrift and, even, that it thereby discourages accumulation and deprives the community of the use of as much capital as might otherwise be had, many "liberal" sympathizers will still be inclined to favor this theory. But the masses have more to gain from justice than from charity. A tax on land values is no burden at all, as we have seen, on the property-less person and it makes it easier than before for him to become an owner of land. It does not increase rents or the prices of goods. The taxed landowner can less afford to hold his land out of use than if the land were not taxed. He must either use it himself or let others use it on favorable

terms. If more land rather than less is on the market, the rent of land can not be higher; and if more goods—certainly no fewer goods—are produced, the prices of goods can not be raised. Are any of the systems of taxation which liberals of "ability theory" persuasion support, anything like so favorable to the common man as the taxation of land values? Are not most other taxes likely to operate, indirectly if not directly, to burden the masses? In truth, the so-called liberal who thinks to serve the interests of the masses by advocating the application of the "ability theory" of taxation, may be, however unconsciously, an auxiliary of the forces of reaction. For the effect of such advocacy may be to relieve land of taxation, or, at best, to weaken the support for increased taxation of land. Hence, land tends to be higher in price, the unearned increment from the growth of the cities becomes a cause of great fortunes, tenancy is unnecessarily and undesirably accentuated, and the opportunities of the thrifty poor to rise in the economic scale are lessened. Liberalism needs more than sympathetic hearts. It needs, as well, economic intelligence. Without the aid of such intelligence it is likely to be found flirting with the ideals of communism and

pluming itself that it is thereby serving the common welfare.

To conclude this part of our case, let us suppose that all the surrounding states should adopt a system of taxation such as I have suggested, while my own state, Missouri, should keep to the existing system. What would happen? Obviously, the surrounding states would be better places for business to locate. All buildings, machinery and other capital would be untaxed—or, anyhow, less taxed than in Missouri. Consequently the net returns to investors would be greater. There would, to be sure, be a higher tax on bare-land value. But this would be fully offset, for any one desiring to buy land in these states for any business whatever, by the lower price of land. For as we have seen, land has no cost of production and its value is arrived at solely by capitalizing its net income—the net income due to the ownership of the bare-land, not counting the improvements. Furthermore, speculative holding of vacant land would not pay. Land would be available on reasonable terms to people who wanted to use it.

People are constantly boasting about the rise in land prices in their towns or states, as if this were desirable. "Come to our town," they say. It's a

fine place; land is going up in price by leaps and bounds." But if bread and meat, or potatoes, are rising in price in their town, people do not boast. Land, too, is a necessity of life. And it is a necessity of business. If the surrounding states should untax capital and business, therefore, and should tax land values more heavily, the cheaper land so made possible and the larger net returns remaining to investors on their improvements and other capital would stimulate a flow of capital into those states and away from Missouri. Even those conservative Missourians who were most bitterly opposed to the idea of land-value taxation would be found preferring to invest in the neighboring states which had adopted the new plan!

As business investment would flow to those neighboring states, so would population flow. The hard working and thrifty person trying to accumulate a competence for his children would prefer to live in a state where his savings would be taxed as little as possible and where he could buy cheaply the land necessary for a home. And the opportunities of profitable employment also would presumably be best in a state to which capital would thus be flowing.

(5)

Gradual Increase of Land-Value Taxation Not Unfair Infringement on Vested Rights

But when the case is complete, when it is convincingly established that our present tax system is the more communistic and that our present general property taxation has the more in common with the socialistic failure to distinguish interest from land rent, but that, nevertheless, taxation of land values is clearly better for those who must begin at the bottom of the economic ladder the struggle to secure a competence, there may still be some who are opposed. These will be mainly, perhaps, persons who are greatly concerned lest there be some infringement of "vested rights." Objection to increased land-value taxation on this score is heard so often that it will be best for us to meet the issue frankly and in detail.

The first observation which I shall make in this connection is that many landowners would not only not be at all injured by the proposed change but would enjoy a clear net benefit. The landowner whose land is highly improved might easily gain more from the removal of taxes on his improvements than he would lose because of

increased taxes on his land. And he would avoid the burden of various taxes on production which he now pays in the cost of purchased goods. It is true that the salable value of his bare land would be less. But his real income would frequently be greater. And the fact that his land would sell for less is surely of no importance if he intends to keep it and use it and, perhaps, pass it on to his children, rather than to sell it. Even if he intends to sell his land, the fact that land is cheaper does not necessarily mean that he is worse off. For he may desire to sell it only in order that he may buy another piece of land, in which case his gain as a buyer is as great as his loss as a seller. It is true that if he sells his land with no intention to reinvest but meaning to use up the proceeds as soon as possible, he will lose in not having so much money to spend. It is also true that the owner of but slightly improved valuable land and of valuable vacant land will lose. But, so far as the owner of vacant land is concerned, we have seen that the holding of good land out of use is a public nuisance, and it is entirely legitimate to levy increased taxes on a nuisance in order to discourage it.

The second consideration to which I

shall devote attention is that few of those who oppose greater land-value taxation on the basis of "vested rights" show anything like the same concern for persons other than landowners, who may be injured by changes in public policy. Not long ago the eighteenth amendment to the Federal constitution and the legislation incident to carrying it into effect were voted by state and Federal legislatures with no provision for the "vested rights" of brewers, saloon keepers, etc., many of whom must have been seriously injured by the new policy in their business interests and in the salable value of their property. In recent decades there has been, too, a movement in the direction of state regulation—through public service commissions—of the rates of gas, electric light, telephone and street railway companies. What about an investor who, prior to the establishment of a state public service commission, had bought for a high price, because of its large monopoly yield, the stock of a city electric lighting company, only to find that regulation of its rates and consequent reduced profits has made the salable value of this stock less than before! Is not the salable value of his property reduced? And would the opponents of land-value taxation say that

the public ought to pay monopolistic rates for their electricity indefinitely and not regulate these rates, lest the "vested rights" of stockholders be infringed?

The truth seems to be that no system as a result of which some profit at the expense of others *can* be abolished *without* infringement of "vested rights" unless the victims of the system which is to be abolished themselves pay for their own relief. Many people say with regard to slavery that the ideal way to have freed the slaves would have been to pay the slave owners their full value. But *who* should have paid this money to the owners? If the property of non-slave owners had been partially confiscated by taxation—or the future income of this property heavily taxed —to provide the requisite means, would not the "vested rights" of non-slave-owning property owners have been disregarded? Should the slaves then have been paid for by the proceeds of a bond issue which they themselves would have had to redeem, principal and interest? In other words, was it not necessary, if "vested rights" were to be fully respected, that the victims of the system of slavery should buy themselves free?

In regard to the increased taxation of land values, one further consideration may be presented. Such change is almost certain to come by degrees. I do not believe it is politically possible to introduce it suddenly or without years of discussion. Whether or not we should regard an immediate change as legitimate, surely we can not reasonably maintain that no change at all, no matter how gradual, is permissible. The purchaser of a piece of land *does not buy it with a guarantee,* either overt or implied, that society will *never change* its tax policy, even by gradual steps, though he may buy it with the practical certainty that no such change in tax policy will be made suddenly,—say tomorrow morning!

We do not hesitate to increase the taxes on automobiles after people have bought cars not expecting such increase. We do not hesitate to levy increased taxes of various other kinds without regard to their not having been anticipated by those who must pay them. In many places increased taxes have already been levied on land values, and there is no reason to assume that this particular change in tax policy is so new and unheard of as to stand altogether in a class by itself. In short, the contention that this is the one

change in tax policy which is in no degree permissible is simply ridiculous and perhaps may be most effectively dealt with by laughing at it. Indeed, it would be hard to believe—did some of them not take pains so to assure us—that any serious student of economics could hold so extreme a position.

Before leaving this topic I would like to warn you of the danger of accepting the taxation of *future increases* of land values as in any way a satisfactory substitute for increased taxation of land value in general. Such a policy involves considerable administrative expense and has relatively small yield. As usually applied it tends to discourage transfers of ownership. It compels continued reliance, for most of the public revenues, on other sources than land. Leaving as it does, all the present net rental yield of bare land in the possession of private individuals, it can never very greatly cheapen land and make it easy for the poor man to become an owner. In spite of this fact, it does not fully avoid the objection of those who would not permit any reduction in the salable value of land. For the present salable value of a piece of land does depend, in some degree, upon the expectation—even upon the hope—that its future yield and value will be

higher; and the sure prospect of a heavy tax upon the increase would be likely to lower the present value. But however this may be, I sincerely hope that the movement for greater taxation of bare-land values will not be diverted into so almost futile a reform as the mere taxing of future increments. I would rather that the reform should be in the direction of a generally increased rate of taxation on land values both old and new even if it must, therefore be delayed. For then, at least, there might be hope that at *some* time the salable value of land would be low. And so there would be hope that the chances of those who, though ambitious and willing to work, must begin at the bottom of the economic ladder, would in the distant future be reasonably good.

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Conclusion

Most people, I think, are as eager as I am to see our tax system changed in the direction of heavier taxes on land values. They know, as I do, that the movement to increase the tax rate on land has been misunderstood and misrepresented. It is for us, so far as we are able, to see that such misunderstanding and misrepresentation be not

possible in the future. Let us make clear that not land-value taxation but our present tax system comes closer to communism in those respects in which communism is generally criticized. Let us show, too, that it is not we, but conservative supporters of the existing tax system, who most resemble the socialists in their usual inability to distinguish between land and capital. Let us emphasize, on every occasion, the fact that, despite its essentially non-communistic character, a tax on land values is far more favorable to the economic prosperity of the common man than is taxation based on "ability to pay." Finally, let us be ready to show and to show clearly how utterly preposterous is the argument based on "vested rights," certainly in the extreme form in which it is frequently stated. On this last point let us emphasize our own moderate position. Even those among us who are most impatient of delay in the securing of the reform we regard as so important may well urge that the change be gradual. For this reform is more likely to come and it is likely to come more rapidly if only gradual change is urged than if sudden change is urged. Those who demand sudden change shock into opposition many who might become allies and so delay the time when we can

realize any change at all. Just in order that the tax system we hold so essential may begin to be realized during our lives, we would do well to accept as the ideal in reform for our own country that expressed in the lines in which Tennyson described England:

"A land of settled government,
A land of just and old renown
Where freedom broadens slowly down
From precedent to precedent."

"FROM PLATO DOWN"

The fact that Henry George has an ardent group of disciples who have a practical program for the reform of taxation has tended to obscure from the recognition of students of social theory that his is one of the great names among the world's social philosophers. It would require less than the fingers of the two hands to enumerate those who from Plato down rank with him. Were he a native of some European country, it is safe to assert that he would long ago have taken the place upon the roll of the world's thinkers which belongs to him, irrespective, moreover, of adherence to his practical plan.

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